

33-7525
CITY OF MASON

DOWNTOWN DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

AND

INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name DOWNTOWN CITY OF WASON DEVELOPMENT AUTHORITY	County INDEHAN
Audit Date 6-30-04	Opinion Date 8-12-04	Date Accountant Report Submitted to State: 12-21-04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations

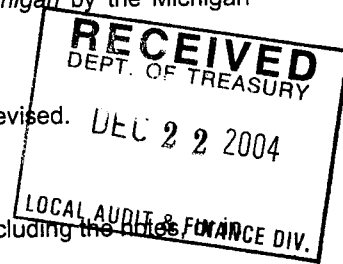
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE ROAD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature [Signature] CPA			



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Mason Downtown
Development Authority
Mason, Michigan

We have audited the accompanying basic financial statements of the governmental activities, and the business-type activities of the CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basis financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the City of Mason Downtown Development Authority as of June 30, 2004, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

As described in Note 2, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-For State and Local Governments*; as amended by GASB 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2004, on our consideration of the City of Mason Downtown Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise the City of Mason Downtown Development Authority's basic financial statements. The introductory section and supplementary section are presented for purposes of additional analysis and are not required part of the basic financial statements. The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

Layton + Richardson PC

Certified Public Accountants

August 12, 2004
East Lansing, Michigan

City of Mason Downtown Development Authority

Management's Discussion and Analysis

Our discussion and analysis of the Downtown Development Authority of the City of Mason ("MDDA") financial performance provides an overview of the MDDA's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the MDDA's financial statements.

Financial Highlights

- Infrastructure improvements were completed along State Street and Columbia Street to support development of the Cobblestone Village area. These improvements consisted of brick imprint sidewalks and colored concrete sidewalks which were installed in connection with the City of Mason's State Street improvement project.
- An additional streetlight was installed at the corner of Oak and Jefferson in front of the newly opened Mike's Firehouse Grill.
- Mike's Firehouse Grill opened in August 2003 and the developers completed their commitments to MDDA in accordance with their fire station redevelopment proposal and development agreement.
- Facade grant projects were approved in the sum of \$31,893. Of those projects, \$13,090 was disbursed for completed work and the remainder of \$18,803 is reflected in the statement of net assets as an account payable to be funded from this budget when the work was completed.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the MDDA as a whole and present a longer-term view of the MDDA's finances. The Statement of Revenues, Expenditures, and Changes in Fund Balance provides a more detailed report of the income and expenditures of the MDDA during the fiscal year.

Reporting the MDDA as a Whole

One of the most important questions asked about the MDDA's finances is, "Is the MDDA as a whole better off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the MDDA as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the MDDA's *net assets* and changes in them. You can think of the MDDA's net assets – the difference between assets and liabilities – as one

way to measure the MDDA's financial health, or *financial position*. Over time, *increases* or *decreases* in the MDDA's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the MDDA's captured property tax base, to assess the *overall health* of the MDDA:

City of Mason Downtown Development Authority

Management's Discussion and Analysis (continued)

In the Statement of Net Assets and the Statement of Activities, the MDDA is shown as a governmental activity while within the City of Mason's audit they are shown as a component unit:

- Governmental activities – The MDDA's services are reported here. Property taxes finance most of these activities.

The Mason Downtown Development Authority as a Whole

Table 1 was summarized from the MDDA's Statement of Net Assets. The net assets of the MDDA decreased from \$201,992 to \$174,592, a decrease of \$27,400 or 13.56%. A decrease of \$30,045 was budgeted. As this is the first year of reporting in compliance with GASB Statement # 34, a comparison to the prior year is not available.

Table 1
Net Assets

Current and other Assets	\$218,395
Total liabilities	<u>43,803</u>
Total net assets/fund balance	\$174,592

Governmental Activities

As stated previously, the net assets of the MDDA's fund balance decreased by \$27,400 or 13.56%. The MDDA has no debt covenants so the entire fund balance is unrestricted.

Table 2 was summarized from the MDDA Statement of Activities. This table summarizes MDDA revenues and expenses.

Table 2
Changes in Net Assets

Revenues:	
Property Taxes	\$41,631
Interest	<u>1,450</u>
Total Revenues	\$43,081
Expenses:	
General Government	\$70,481
Debt Service	<u>0</u>
Total Expense	\$70,481
Increase (Decrease) in Net Assets	<u>(\$27,400)</u>
Net Assets, July 1	<u>\$201,992</u>
Net Assets, June 30	\$174,592

City of Mason Downtown Development Authority

Management's Discussion and Analysis (continued)

Total revenue from all sources totaled \$43,081, of which 96.6% or \$41,631 is from captured property taxes. The remaining revenue is interest earned on the fund balance. The MDDA captured the City of Mason millage rate of 13.25 mills, 3.8544 mills from Lansing Community College, Ingham County millage of 8.6011, and Capital Area District Library millage of 1.4600.

The \$70,481 expended for governmental activities was funded from the property taxes captured and from the existing fund balance.

The Mason Downtown Development Authority's Funds

The MDDA received a total of \$41,631 in captured property taxes. The MDDA expended funds on various projects this year including \$28,770 for infrastructure improvements in the Cobblestone Village and Courthouse Square areas and expended funds on a number of facade grant projects for which \$31,893 was committed of which \$13,090 was actually disbursed and the remainder held for disbursement upon completion of the projects. The MDDA presently has no debt service.

Administrative expenses, including supplies, dues, subscriptions and accounting fees, were paid in the sum of \$26,513.

Mason Downtown Development Authority Budgetary Highlights

The difference between the original budget and the amended budget for the MDDA was a decrease of \$7,000 for publishing and advertising. This decrease occurred because the original budget contained a typographical error.

The amended budget reflects slightly higher tax revenue than anticipated and slightly lower interest revenue than anticipated.

The most significant variation between budgeted expenses and actual expenses was for streetscape improvements where the actual expenditure was \$2,480 less than budgeted.

Capital Asset and Debt Administration

Capital Assets

The MDDA contributed to the capital assets of the City of Mason to benefit the downtown area. Construction of Streetscape improvements in both the Courthouse Square area (one additional antique light pole) and Cobblestone Village (imprinted and colored sidewalks). The MDDA investment in these improvements this fiscal year amounted to \$28,770.

Debt

At year-end, the MDDA had no outstanding debt.

City of Mason Downtown Development Authority

Management's Discussion and Analysis (continued)

Economic Factors and Next Year's Budget and Rates

- Projected captured taxable value as determined by the City Assessor.
- Rate of return on invested fund balances.

These factors were considered in preparing the MDDA's budget for Fiscal Year 2003-2004.

The MDDA reviews its current budget to determine available fund balances to be appropriated for the new fiscal year's budget. This, along with the projected captured taxable value obtained from the city assessor, provides the basis of establishing the annual budget. Funds are appropriated based upon projections made by the City of Mason staff, the MDDA Executive Director, and the MDDA Board. Decreases in the fund balance in the past few years have been anticipated, expected and built into each budget. The amounts of such decreases are projected by the City of Mason and the MDDA. The 2003-2004 budget was prepared in anticipation that the captured taxable value in the MDDA district would be increasing significantly in 2004. In fact, this captured taxable value increased over 30% for 2004 due, in significant part, to the successful redevelopment of the old fire station.

The MDDA is seeking to further increase revenues by expanding the boundaries of the DDA district. The expansion process will be pursued in the 2004-2005 fiscal year.

Request For Information

This discussion and analysis is designed to provide a general overview of the MDDA's finances for all those with an interest in it's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Mason, Administrator's office.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET**

JUNE 30, 2004

	DOWNTOWN DEVELOPMENT AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and cash equivalents	\$ 165,159	\$	\$ 165,159
Receivables			
Taxes	51,368		51,368
Accounts receivable	113		113
Deferred expenses	718		718
Due from other funds	<u>1,037</u>		<u>1,037</u>
	\$ <u>218,395</u>	\$ <u></u>	\$ <u>218,395</u>
LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Accounts payable	\$ 18,803	\$	\$ 18,803
Due to other funds	<u>25,000</u>		<u>25,000</u>
	<u>43,803</u>		<u>43,803</u>
FUND BALANCE/NET ASSETS			
Unreserved	<u>174,592</u>		<u>174,592</u>
	\$ <u>218,395</u>	\$ <u></u>	\$ <u>218,395</u>

See accompanying notes to financial statements.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	DOWNTOWN DEVELOPMENT AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES			
General government	\$ <u>70,481</u>	\$ _____	\$ <u>70,481</u>
GENERAL REVENUES			
Property taxes	41,631		41,631
Interest	<u>1,450</u>	_____	<u>1,450</u>
	<u>43,081</u>	_____	<u>43,081</u>
CHANGES IN FUND BALANCE/NET ASSETS	(27,400)		(27,400)
FUND BALANCE/NET ASSETS, JULY 1	<u>201,992</u>	_____	<u>201,992</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>174,592</u></u>	\$ <u><u> </u></u>	\$ <u><u>174,592</u></u>

See accompanying notes to financial statements.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Taxes	\$ 40,750	\$ 41,630	\$ 41,631	\$ 1
Interest	<u>3,000</u>	<u>1,500</u>	<u>1,450</u>	<u>(50)</u>
TOTAL REVENUES	<u>43,750</u>	<u>43,130</u>	<u>43,081</u>	<u>(49)</u>
EXPENDITURES				
Salaries	22,500	22,500	22,464	36
Contract services	400	400	349	51
Accounting fees	800	800	800	
Conference and training	300	300	156	144
Publishing and advertising	7,000			
Utilities	1,300	1,300	1,264	36
Supplies	500	500	529	(29)
Dues and subscriptions	100	100	100	
Rent	1,200	1,200	1,200	
Loans and grants	13,095	13,095	13,090	5
Downtown Streetscape	31,250	31,250	28,770	2,480
Miscellaneous	<u>1,730</u>	<u>1,730</u>	<u>1,759</u>	<u>(29)</u>
TOTAL EXPENDITURES	<u>80,175</u>	<u>73,175</u>	<u>70,481</u>	<u>2,694</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(36,425)	(30,045)	(27,400)	2,645
FUND BALANCE, JULY 1	<u>201,992</u>	<u>201,992</u>	<u>201,992</u>	
FUND BALANCE, JUNE 30	<u>\$ 165,567</u>	<u>\$ 171,947</u>	<u>\$ 174,592</u>	<u>\$ 2,645</u>

See accompanying notes to financial statements.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1: REPORTING ENTITY

In accordance with the provision of Act 197 of the Public Acts of 1975 the City Council of the City of Mason established, by ordinance, the Downtown Development Authority on October 15, 1984. The purpose of the Downtown Development Authority is to operate for and on behalf of the City and in cooperation with the City Council in order to correct and prevent deterioration of the Downtown District of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, to strengthen existing areas and encourage new private development in the Downtown District. The Downtown Development District includes approximately 20 City blocks in which the primary zoning is commercial. The Downtown Development Authority developed a 20-year development plan and tax increment finance plan which were both adopted by the City Council on March 16, 1987. Downtown Development Authority Bonds were sold to finance certain improvements as outlined in the Downtown Development Plan. Tax increment financing revenues captured from eligible property is used to pay for the bond and interest payments as well as for other public improvements within the District. Any tax revenues not required by the Downtown Development Authority to finance public improvements within the district shall revert proportionally to the respective taxing jurisdiction.

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Downtown Development Authority is considered a component unit of the City of Mason, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the City of Mason Downtown Development Authority are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Mason, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Mason Downtown Development Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statement

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Mason Downtown Development Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City of Mason Downtown Development Authority.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Mason Downtown Development Authority as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. Depreciation is applied over the estimated useful life of capital assets.

CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2004

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

D. Capital Assets - Concluded

Straight-line and declining balance depreciation methods are used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPREICIABLE LIFE
Land	n/a
Land improvement	10-20 years
Buildings	10-40 years

At June 30, 2004, the City of Mason Downtown Development Authority had no capital assets.

E. Long-Term Liabilities

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is repored as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

NOTE 3: CASH AND CASH EQUIVALENTS

At June 30, 2004, bank deposits amounted to \$165,159, which was partially covered by federal depository insurance, and is recorded on the financial statements as cash and cash equivalents.

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2004, are as follows:

FUND	DUE TO	FUND	DUE FROM
Downtown Dev. Authority	\$ <u>1,037</u>	General	\$ <u>1,037</u>
Major Streets	\$ <u>25,000</u>	Downtown Dev. Authority	\$ <u>25,000</u>



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Mason Downtown
Development Authority
Mason, Michigan

We have audited the general purpose financial statements of the CITY OF MASON DOWNTOWN DEVELOPMENT AUTHORITY as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Mason Downtown Development Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason Downtown Development Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the City Council, management, and State and Federal Agencies. However, this report is a matter of public record and its distribution is not limited.

Layton & Richardson PC

Certified Public Accountant

East Lansing, Michigan
August 12, 2004